



SMC Ranking
 ★★☆☆☆ (2/5)

Issue Highlights

Industry	NBFC
Offer for sale (Shares)	63,492,063
Fresh Issue (Shares)	31,746,032
Net Offer to the Public	95,238,095
Issue Size (Rs. Cr.)	2857-3000
Price Band (Rs.)	300-315
Employee Discount	23
Offer Date	May 8, 2024
Close Date	May 10, 2024
Face Value	10
Lot Size	47

Issue Composition

	In shares
Total Issue for Sale	95,238,095
QIB	47,619,048
NIB	14,285,714
Retail	33,333,333

About the company

Incorporated in 2010, Aadhar Housing Finance Limited is a housing finance company targeting the lower income segment. The deep impact branches' sales offices aim to serve customers in India's tier 4 and tier 5 towns. As of Sept. 30, 2023, the company enrolled 12,221 Aadhar Mitras who get referral fees for sourcing customers' loans. The company provides a variety of mortgage loan products for residential and commercial property purchase and construction, home improvement and extension. As of September 30, 2023, the company has a vast network of 471 branches, including 91 sales offices. These branches and sales offices are spread across 20 states and union territories, and they operate in around 10,926 pin codes throughout India. As of September 30th, 2023, the company has 3,695 employees. Its subsidiary, Aadhar Sales and Services Private Limited (ASSPL), has 1,851 employees. The company has served 246,983 customers nationwide through 471 branches and offices.

Strength

Focused on the low-income housing segment: Aadhar Housing Finance is a HFC focused on the low-income housing segment (ticket size less than Rs. 0.150 crore) in India and it had the highest AUM and net worth among its analyzed peers in Fiscal 2021, Fiscal 2022, Fiscal 2023 and nine months ended December 31, 2023. It believes that due to its scale and diversified reach, it well positioned to meet the specific needs of its target customers across geographies, in urban and semi-urban areas. Housing financiers focused on low income housing segment typically serve the underserved category of low-income or mid-income customers who may be salaried, working in the informal sector or self-employed running a small business.

Seasoned business model with strong resilience through business cycles: Through various business cycles, the company has been able to leverage the inherent strength of its customer centric business model, its extensive branch and sales office network, and the expertise of its professional management team, to maintain its status as the HFC focused on the low-income housing segment (ticket size less than Rs. 0.150 crore) in India with the highest AUM and net worth among analyzed peers in Fiscal 2021, Fiscal 2022, Fiscal 2023 and nine months ended December 31, 2022 and December 31, 2023. Its diversified products offering allow it to cater to its retail customer base, comprising salaried and self-employed customers in both formal and informal segments. 58.6% and 57.2% of its customer base comprised salaried customers as of March 31, 2023 and December 31, 2023, respectively. The average ticket size of the company's loans has remained stable at Rs. 0.090 crore from March 31, 2021 to March 31, 2023 and increased to Rs. 0.1 crore as of December 31, 2023, with an average loan-to-value of 57.8% and 58.3%, as of March 31, 2023 and December 31, 2023, respectively. The company believes that this is an attractive range for low-income housing segment loans.

Extensive branch and sales office network, geographical penetration and sales channels which contribute significantly to loan sourcing and servicing: The company a pan-India branch and sales office network. It believes that a comprehensive on-the-ground presence is essential for its success and growth in the low-income housing finance segment. Since its establishment of sales offices in the last quarter of FY2023, as of March 31, 2023 and December 31, 2023, it had 469 and 487 branches (including 94 and 109 sales offices, respectively) across India covering 20 states and union territories of India, respectively. Its branch and sales office network is widely dispersed across various states and geographies with 56.3% and 55.9% of its branches and sales offices spread across five states and the remaining 43.7% and 44.1% spread across 15 states, as of

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	98.72%	76.48%
QIB	1.18%	12.26%
NIB	0.11%	3.45%
Retail	0.00%	7.82%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

- To meet future capital requirements towards onward lending; and
- General corporate purposes

Book Running Lead Manager

- ICICI Securities Limited
- Citigroup Global Markets India Private Limited
- Kotak Mahindra Capital Company Limited
- Nomura Financial Advisory and Securities (India) Private Limited
- SBI Capital Markets Limited

Name of the registrar

- KFin Technologies Limited

March 31, 2023 and December 31, 2023, respectively. Its extensive presence across India through physical locations, sales personnel, digital and technology enabled solution and the Aadhar Mitra program positions the company to be the lender of choice for low income housing segment loan products amongst its target customers.

Robust, comprehensive systems and processes for underwriting, collections and monitoring asset quality: The Company has implemented a robust and comprehensive credit assessment, risk management and collections framework to identify, monitor and manage risks inherent in its operations. It exclusively finances retail customers, a majority of whom are salaried individuals purchasing residential properties. It has also adopted an internal 'risk appetite statement' that sets out the aggregate level and types of risk it is willing to accept while achieving its business objectives. Under this policy it has adopted a benchmark for business decisions that are based on balancing risk and return and making the best use of its capital. It routinely monitors our performance against various qualitative and quantitative metrics under this policy, these include capital, profitability, asset quality, credit, operational, liquidity and compliance risk. As of March 31, 2023 and December 31, 2023, the company's loan-to-value on Gross AUM on outstanding basis was 57.8% and 58.3% with a moderate level of loan-to-value ratios across various buckets at the time of the sanctioning of the loan.

Access to diversify and cost-effective long-term financing with a disciplined approach to asset liability and liquidity Management: The Company assigns loans through direct assignment to banks and financial institutions, which enables it to optimize its cost of borrowings, funding and liquidity requirements, capital management and asset liability management. As of December 31, 2023, it had borrowing relationships with the NHB, 23 banks, nine mutual funds, three insurance companies, one development finance institution and one NBFC (that have invested in its NCDs). The diverse sources of fund allow the company to maintain more cost-effective long-term financing. The following table sets forth, for the period ends indicated, a breakdown of its tenure and weighted average tenure of funds:

Particulars	As of				
	March 31, 2021	March 31, 2022	March 31, 2023	December 31, 2022	December 31, 2023
Composition of Total Borrowing					
% of short-term borrowings	1.8%	0.7%	0.0%		
% of long-term borrowings	98.2%	99.3%	100%	100%	100%
Weighted average tenure of outstanding borrowings (including securitization and assignment)	104 months	105 months	107 months	107 months	116 months

Strategy

Expand its Distribution Network to Achieve Deeper Penetration in key states: The Company has a comprehensive pan-India presence covering its target customers. With increased urbanization across India, it believes that the continuing expansion of our physical and digital presence across India will be a key enabler for its growth. It believes that its current operating model is scalable, which will assist the company in expanding its operations with lower incremental costs to drive efficiency and profitability. Its branch expansion is done in a calibrated and systematic manner. The company reviews a number of factors including demographics and competitive landscape before establishing a branch. It has modelled its branches into categories to manage costs and risks while expanding our presence.

Continue to focus on target customers and grow customer base: In FY2023, the company's customers reached 233,000 accounts and it has more than 255,000 Live Accounts as of December 31, 2023. The majority of its customers are from the economically weaker and low-to-middle income segment of the Indian economy. As of March 31, 2023 and December 31, 2023, 58.6% and 57.2% of its customers are salaried individuals and 41.4% and 42.8% are self-employed individuals, respectively. Majority of the household shortage is for LIG and EWS with a small proportion of shortage (5.0-7.0%) of the shortage coming from MIG or above.

Continue to invest in and roll out digital and technology enabled solutions across its business to improve customer experience and improve cost efficiency: In October 2021, the company implemented an enterprise-wide technology upgrade of its systems and processes. These investments are aimed at modernizing its technology backbone and digitizing operating processes. It

believes that these initiatives will assist in streamlining of existing processes and the introduction of enhanced features. Further, it aims to make the process of buying a house for its customers seamless by building a digitally-driven and enabled HFC focused on the low-income housing segment. The key components of this are the simplification of processes, growing its reach, efficient and comprehensive risk management combined with a superior customer experience.

Optimize borrowing costs and reduce operating expenses further: The company's cost of borrowing declined from FY2021 to FY2022 and thereafter increased at a slower pace in the nine months ended December 31, 2023 as compared to the increase in the India repo rate during the same period, which it believes is due to its proactive and flexible fundraising strategy. It intends to continue to diversify its funding sources, identify new sources and pools of capital and implement robust asset liability management policies with the aim of further optimizing its borrowing costs and help sustain its NIM. In line with its strategy, it has increased the share of NHB refinancing in its Total Borrowings and have also availed international sources of funding in the past to reduce its overall cost of borrowings and diversify the funding mix. With a strategy to leverage its distribution network and widen its sources of funds, it signed co-lending agreements with two public sector banks and one private sector bank in FY2022 and FY2023. The partnerships with the two public sector banks have been operationalized. It may also enter into such arrangements with other private and public sector banks to increase the number of its co-lending partners. It believes co-lending presents a unique opportunity through the combination of the banks' availability of low cost of funds, coupled with an NBFC (including HFC's) ability to source retail customers efficiently as well as manage these customers, including collections. This model allows NBFCs or HFCs to cater to a larger customer base with lesser capital by leveraging the larger balance sheet of their partner banks

Risk factor

- The company depends on the accuracy and completeness of information provided by its potential borrowers and third-party service providers.
- The company has had negative net cash flows in the past and may continue to have negative cash flows in the future.
- Any increase in the levels of non-performing assets in its AUM would adversely affect its business, results of operations, cash flows and financial condition.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Aptus Value Housing Finance India Ltd.	1415.14	611.90	12.26	26.83	4.36	75.52	2	328.90	16409.61
Aavas Financiers Ltd.	2020.70	490.69	62.00	25.54	3.32	476.79	10	1583.75	12533.75
Home First Finance Company India Ltd.	1070.10	286.28	32.34	27.70	4.07	219.94	2	895.90	7930.16
India Shelter Finance Corporation Ltd.	794.17	222.73	20.81	28.34	2.90	203.21	5	589.75	6313.34
Aadhar Housing Finance Ltd.**	1560.48	730.51	17.13	18.39	2.47	127.36	10	315.00	13434.78

*Peer companies financials are TTM based

**Aadhar Housing Finance Limited are annualized FY2024

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.315, the stock is priced at pre issue P/E of 17.02x on annualized FY24 EPS of Rs. 18.51. Post issue, the stock is priced at a P/E of 18.39x on its annualised FY24 EPS of Rs. 17.13.. Looking at the P/B ratio at Rs. 315, pre issue, book value of Rs. 112.27 of P/Bvx 2.81x. Post issue, book value of Rs. 127.36 of P/Bvx 2.47x.

Considering the P/E valuation, on the lower end of the price band of Rs.300, the stock is priced at pre issue P/E of 16.21x on annualized FY24 EPS of Rs. 18.51. Post issue, the stock is priced at a P/E of 17.52x on its EPS of Rs. 17.13. Looking at the P/B ratio at Rs. 300, pre issue, book value of Rs. 112.27 of P/Bvx 2.67x. Post issue, book value of Rs. 127.36 of P/Bvx 2.36x.

Industry Outlook

The overall size of the housing finance market focusing on low income housing loans in India was around Rs. 4400000 crore as of December 2023, constituting for around 14% of the overall housing finance market, as per CIBIL data. CRISIL MI&A expects the industry to pick up steam gradually and the loans outstanding in housing finance focused on low income housing segment to touch Rs. 5400000-5700000 crore by March 2026, translating into an 8-10% CAGR between Fiscals 2023 and 2026.

Outlook

Aadhar Housing Finance Limited dominates low income housing segment amongst HFCs on major counts. It enjoys a Pan India presence with 498 branches. The company has robust and comprehensive systems and processes for underwriting, collections and monitoring asset quality. It has migrated to a digital IT infrastructure with a view to reducing costs, carrying on real time analysis of customer data, improving its control and underwriting functions, while increasing customer reach and distribution capability. A long term investor may opt the issue.

NPAs

(Rs. In Millions)

	As of/ for the				
	FY-2021	FY-2022	FY-2023	December 31, 2022	December 31, 2023
Gross NPA	1,430.30	1,748.10	1,927.20	2,722.30	2,719.40
Gross NPA (%)	1.10%	1.50%	1.20%	1.80%	1.40%
Net NPA	996.7	1,608.20	1,440.90	2,181.30	1,925.20
Net NPA (%)	0.70%	1.10%	0.80%	1.30%	1.00%

Credit Growth

Disbursement by segments

(₹ in million)

Product	FY2021	FY2022	For the		
			FY2023	Nine months ended December 31, 2022	Nine months ended December 31, 2023
Home Loan	30,409.0	31,168.1	42,054.8	27,930.9	35,354.9
Other Mortgage Loan	5,038.1	8,751.2	16,971.3	11,522.7	13,685.7
Loans to Developers	-	-	-	-	-
Total	35,447.1	39,919.3	59,026.1	39,453.6	49,040.6

Number of fresh sanctions during the year (Number of cases)

Disbursement cases by product	FY2021	FY2022	For the		
			FY2023	Nine months ended December 31, 2022	Nine months ended December 31, 2023
	(in nos.)				
Home Loan	49,829	49,305	56,591	38,309	42,391
Other Mortgage Loan	8,606	15,241	26,950	18,508	22,684
Loans to Developers	-	-	-	-	-
Total	58,435	64,546	83,541	56,817	65,075

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	8-May-24
BID/ISSUE CLOSES ON	10-May-24
Finalisation of Basis of Allotment with the Designated Stock Exchange	13-May-24
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	14-May-24
Credit of Equity Shares to Demat Accounts of Allottees	14-May-24
Commencement of trading of the Equity Shares on the Stock Exchanges	15-May-24

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Dec-23 (9 Months)	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)
Interest income	1673.32	1776.28	1538.29
Interest expenses	724.81	799.19	761.20
Net Interest Income	948.51	977.09	777.09
Other Operating Income	221.70	266.95	189.98
Operating Profit	1170.21	1244.04	967.07
Other Income	0.15	0.29	0.29
Total Net Income	1170.36	1244.33	967.36
Other Expenses	454.16	507.02	386.75
PBDT	716.20	737.31	580.61
Depreciation	15.22	16.49	13.25
PBT Before Exceptional item	700.98	720.82	567.36
Exceptional item	0.00	25.00	0.00
PBT After Exceptional item	700.98	695.82	567.36
Tax	153.10	151.06	122.51
PAT	547.88	544.76	444.85

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Dec-23	As on 31-Mar-23	As on 31-Mar-22
Assets			
Financial assets			
Cash and cash equivalents	188.47	405.14	574.17
Other bank balances	1033.28	1512.86	1135.99
Receivables	25.85	7.97	5.19
Housing and other loans	15909.45	13851.45	11960.34
Investments	470.67	459.40	338.02
Other financial assets	260.76	258.85	245.34
Total financial assets	17888.48	16495.67	14259.05
Non-Financial Assets			
Current tax assets (net)	8.12	8.82	24.22
Property, plant and equipment	28.27	24.75	20.81
Right-of-use assets	47.82	38.28	33.47
Other intangible assets	1.41	0.29	0.79
Deferred tax assets (Net)	0.30	0.26	0.28
Other non-financial assets	61.17	49.80	37.19
Total Non-Financial Assets	147.09	122.20	116.76
Total Assets	18035.57	16617.87	14375.81
Financial liabilities			
Other payables			
Total outstanding dues to MSME	0.14	0.36	0.08
Total outstanding dues to creditors other than MSMME	84.73	80.14	50.92
Debt securities	2341.74	2542.13	1764.29
Borrowings (other than debt securities)	10724.57	9542.73	8818.97
Deposits	1.68	3.12	7.99
Subordinated liabilities	59.60	65.47	83.34
Other financial liabilities	523.85	638.47	455.20
Total Financial liabilities	13736.31	12872.42	11180.79
Current liabilities			
Non Financial liabilities			
Current tax liabilities (Net)	0.12	0.00	0.00
Provisions	22.12	17.49	13.90
Deferred tax liabilities (Net)	6.05	9.44	15.31
Other non financial liabilities	21.81	20.86	19.12
Total current liabilities	50.10	47.79	48.33
Total	13786.41	12920.21	11229.12
Net worth represented by:			
Equity Share Capital	394.76	394.76	394.76
Other equity	3854.40	3302.90	2751.93
Net Worth	4249.16	3697.66	3146.69

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

E-mail: researchfeedback@smcindiaonline.com



Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Lotus Corporate Park , A Wing 401 / 402 ,
4th Floor , Graham Firth Steel Compound,
Off Western Express Highway, Jay Coach Signal,
Goreagon (East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-28805606

Kolkata Office:
18, Rabindra Sarani,
Poddar Court, Gate No.- 4, 5th Floor, Kolkata-700001
Tel: 91-33-39847000, Fax: 91-33-39847004

Investments in securities market are subject to market risks, read all the related documents carefully before investing. Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. The securities quoted are for illustration only and are not recommendatory. SMC is a SEBI registered Research Analyst having registration number INH100001849. CIN : L74899DL1994PLC063609.

SMC Global Securities Ltd. (hereinafter referred to as "SMC") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services and related activities. SMC is a registered member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited, MSEI (Metropolitan Stock Exchange of India Ltd) and M/s SMC Comtrade Ltd is a registered member of National Commodity and Derivative Exchange Limited and Multi Commodity Exchanges of India and other commodity exchanges in India. SMC is also registered as a Depository Participant with CDSL and NSDL. SMC's other associates are registered as Merchant Bankers, Portfolio Managers, NBFC with SEBI and Reserve Bank of India. It also has registration with AMFI as a Mutual Fund Distributor.

SMC is a SEBI registered Research Analyst having registration number INH100001849. SMC or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities market. SMC or its associates or its Research Analyst or his relatives do not hold any financial interest in the subject company interest at the time of publication of this Report. SMC or its associates or its Research Analyst or his relatives do not hold any actual/beneficial ownership of more than 1% (one percent) in the subject company, at the end of the month immediately preceding the date of publication of this Report. SMC or its associates its Research Analyst or his relatives does not have any material conflict of interest at the time of publication of this Report.

SMC or its associates/analyst has not received any compensation from the subject company covered by the Research Analyst during the past twelve months. The subject company has not been a client of SMC during the past twelve months. SMC or its associates has not received any compensation or other benefits from the subject company covered by analyst or third party in connection with the present Research Report. The Research Analyst has not served as an officer, director or employee of the subject company covered by him/her and SMC has not been engaged in the market making activity for the subject company covered by the Research Analyst in this report.

The views expressed by the Research Analyst in this Report are based solely on information available publicly available/internal data/ other reliable sources believed to be true. SMC does not represent/ provide any warranty expressly or impliedly to the accuracy, contents or views expressed herein and investors are advised to independently evaluate the market conditions/risks involved before making any investment decision. The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the subject company.

Disclaimer: This Research Report is for the personal information of the authorized recipient and doesn't construe to be any investment, legal or taxation advice to the investor. It is only for private circulation and use. The Research Report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. No action is solicited on the basis of the contents of this Research Report. The Research Report should not be reproduced or redistributed to any other person(s) in any form without prior written permission of the SMC. The contents of this material are general and are neither comprehensive nor inclusive. Neither SMC nor any of its affiliates, associates, representatives, directors or employees shall be responsible for any loss or damage that may arise to any person due to any action taken on the basis of this Research Report. It does not constitute personal recommendations or take into account the particular investment objectives, financial situations or needs of an individual client or a corporate/s or any entity/s. All investments involve risk and past performance doesn't guarantee future results. The value of, and income from investments may vary because of the changes in the macro and micro factors given at a certain period of time. The person should use his/her own judgment while taking investment decisions. Please note that SMC its affiliates, Research Analyst, officers, directors, and employees, including persons involved in the preparation or issuance of this Research Report: (a) from time to time, may have long or short positions in, and buy or sell the securities thereof, of the subject company(ies) mentioned here in; or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company(ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender/borrower to such subject company(ies); or (c) may have any other potential conflict of interest with respect to any recommendation and related information and opinions. All disputes shall be subject to the exclusive jurisdiction of Delhi High court.